LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 28, 2009

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB1770** by Miklos (Relating to the Tax Increment Financing Act.), **As Passed 2nd House**

To the extent that provisions of the bill would result in the inclusion of more property and longer durations in tax increment financing agreements, the provisions would create a cost to taxing units and the state. Because information necessary to estimate the amount of new property or extensions of tax increment financing agreements is not available, there would be an indeterminable cost to the state.

The bill would amend several provisions of Chapter 311 of the Tax Code, regarding the Tax Increment Financing Act.

The bill would expand the authority of a municipality to designate non-contiguous areas within its corporate limits, in its extraterritorial jurisdiction, or in both as a reinvestment zone. It would also add to the conditions under which a municipality would be prohibited from creating a reinvestment zone in an area, and stipulates that those new conditions would apply only to the creation of a zone on or after the effective date of the bill.

The would add the amount of property taxes levied and assessed on the captured appraised value located in the reinvestment zone as an option for calculating the amount of the tax increment.

The bill would clarify that notwithstanding any termination of the reinvestment zone under Section 311.017(a), the taxing unit would still be required to make payments to the fund that are specified under Section 311.013(b). This section would also clarify that notwithstanding Section 311.012(a), a unit would not be required to pay into the fund any tax increment attributable to uncollected taxes until those taxes are collected.

The bill would allow the termination date for a reinvestment zone to be extended by the creating unit. A taxing unit other than the zone's creating unit would not be required to continue to participate during the extended period.

The bill would specify that the Legislature validates and confirms all governmental acts and proceedings of a city or county that were taken before the effective date of the bill with certain exceptions.

Certain provisions of the bill would only apply to a tax increment for a period occurring on or after the effective date of the bill.

Under a tax increment financing agreement, all or a portion of the incremental taxes collected in the zone are forwarded into a Tax Increment Fund (TIF). Under the hold harmless provisions of House Bill 1, Seventy-ninth Legislature, Third Called Session, 2006, school district taxes that are forwarded into a TIF are subtracted from school district collections, increasing state funding. According to the Comptroller of Public Accounts, to the extent that school districts agree to continue participating in reinvestment zones for which the originating city or county has extended the termination date, there would be a cost to the state. Costs would depend on the future actions of cities and counties regarding reinvestment zone extensions, and future decisions of school districts about whether to continue participating in extended reinvestment zones.

Additionally, cities and counties could lose revenue to the extent that the bill results in the inclusion of more property in reinvestment zones, results in longer reinvestment zone terms, or validates actions that were invalid under current law if these actions caused higher tax increments. Because of a lack of data on these items the fiscal impact on cities and counties cannot be determined.

Local Government Impact

Based on analysis from the Comptroller of Public Accounts, for the reasons stated above, the fiscal impact to units of local government cannot be estimated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, JRO, SD, DB